CAPITAL AS A COMPETITIVE CONCEPT

It is chiefly as bearing on the analysis of cost of production, in its relation to market values, though by no means exclusively in this aspect, that the concept of capital becomes a topic of surpassing concern in theoretical economics; and not merely does this hold for theoretical interests, but even more clearly for the connections between economic theory and the actual facts, habits, and methods of modern business life. What are the relations of interest outlays to market prices? Is a tenable distinction to be made between these and rental outlays on the one hand, and wage outlays on the other? Or, so far as cost and value purposes are concerned, might not rent or wages be logically extended to cover all forms of remuneration to any sort of productive agent or instrument? In fact, is cost of production an every-day business concept, or is it something peculiar to economic analysis? And if this latter, are capital outlays to be confined only to expenditures for the use of wealth in the time aspect, or are they to include all forms of burden and subtraction imposed upon the capital reserves of the entrepreneur-producer in the business process of supplying goods to the market? In sum, may we not, for cost purposes, accept a point of view of capital which regards it solely as the source of expenditure — capital conceived in such fashion that interest payments are to be regarded as paid from it rather than for the use of it, and that rent outlays are as truly burdens upon it — and cost elements under it — as were ever wage outlays burdens and costs, whether under the later theory, or under the earlier wage-fund capital notion, with its attendant wage-capital cost outlay?

Not at all denying that, for certain purposes, capital has rightly been and must continue to be discussed as a social category, as production goods, it is intended sharply to raise the question whether this concept of capital has any significance for the cost-of-production analysis or for any purpose connected with the

value problem — the question, also, whether the social concept of capital, as commonly accepted, is not purely industrial and mechanical, as well as non-competitive, and entirely opposed to or irrelevant to the concepts of competitive society and of entrepreneur production, and to the habits and conduct of the actual business world.

It is doubtless true that classical economics contains a considerable number of distinct and antagonistic concepts of cost, but it is none the less true that whenever the argument shifts from the Crusoe discussion to the competitive market, and becomes definite in its analysis and tangible in its applications, the concepts of time-cost and pain-cost somehow shade off into some aspect of labor-value cost as the basis of employer's outlay; or, as especially with Ricardo, by regarding pain-cost as the basis and explanation of the remuneration to the wage-earner and thereby of the wage outlay to the entrepreneur, values are made, through the mechanism of entrepreneur costs, to be proportional to the labor-pain investment in production.

Whether or not labor was thus susceptible of reduction to a common denominator either of pain or of time, and, even if so, whether labor could serve as the ultimate explanation of the very evident market reduction of it to the common denominator of money wages, and whether or not Ricardo's marginal device for getting rent payments out of the category of price-determining costs, may in any view be accepted, it remains in any case clear that Ricardo's reckoning of cost is essentially a business man's computation as a question of money outlays — outlays of the sort which a business man always reckons as demands upon business capital, outlays of the sort which the trading or manufacturing corporation provides for through its subscribed capital or through capital-borrowings upon the market. And it is in this sense, and rightly, but only in this sense, that wages may be spoken of as paid out of capital; but in this sense also raw materials are purchased out of capital — office furniture purchased out of capital; business connections, insurance, and advertising paid for out of capital; in this sense interest and rent are paid for out of capital; and so likewise with all other business expenses incurred in the

process of getting goods upon the market. This concept of capital is in fact — as the writer believes — the only capital concept which can be articulated with the business world's notion of cost of production, and the only concept which, in the development of economic theory or in close economic analysis, can be regarded as having any relevancy to those cost-of-production considerations which have to do with any inquiry into price and value. And again be it repeated that it is chiefly as bearing upon the value problem that the need exists for a re-examination of the capital concept.

SOCIAL CAPITAL AND COMPETITIVE CAPITAL

Whatever might be the accepted theory of value in a collectivist society — whether a labor theory or a utility theory, or quite as possibly no theory at all and no need of any — it is clear that differences in land as used for productive purposes would receive recognition; per item of product obtained, outlays upon some land would be appreciably lower than upon other land. It is equally clear that some of the product of this society would need be saved as raw materials or as tools for further production; but it is not clear that these saved products would be exclusively traceable to either land or labor; in fact, it is certain that some labor product would get embodied in the land, and that some land product would be traceable in all or nearly all forms of collectivist wealth, whether of the production or of the consumption type. Probably, however, in any given situation of environmental conditions, these questions of distinction between wealth as land product and wealth as labor product would not, to this collectivist society, be especially interesting, the problem all the while remaining one of how to get the best results out of the various forms of wealth at hand. If, however, the society were quasi-predatory in character, and were making comparison of different habitats to be contested for, it might well find itself at indifference as between one habitat of poor original quality and medium ameliorations, but with great store of agricultural appliances, as against another of great natural fertility, an inferior measure of land amelioration, and very defective agricultural appliances. So, in the application

of its labor power, land at one time, and at another time the tools and appliances of cultivation, might lead in the call for reinforcement. In short, a collectivist society would not need to, and could not if it needed, distribute its productive possessions into land and capital categories.

As this society would be without competitive production, and without competitive markets, it would have no need for exchange-value methods or measures. Production would take place according to some sort of utility standards in consumption, and productive agents would be rated in esteem according to efficiency in utility creation. Land agents and capital agents would stand on a common basis of estimation. The different members of the society being regarded as substantially equal, both production and consumption would necessarily be worked out according to considerations of utility — marginal utility, of a vague and average sort doubtless — instead of, as now, according to exchange values, wherein purchasing power, and not utility (excepting as utility may more or less affect the purchasing disposition), selects the consumers and determines the direction of production.

Under such conditions, what portion of the social possessions would rank as capital, and what would be the essential meaning of the concept? In accurate analysis, would it be possible to accept the technological notion of capital as comprising all wealth held for purposes of further production — all technologically[1] intermediate products — in the ordinary industrial sense, productive wealth — all technologically non-consumption goods? Would the time element count for anything, in other than this industrial-mechanical aspect? Or must all of the wealth be regarded as capital? How about the ice stored till summer; or the wine aging in the collectivist vaults; or the wheat stored for winter; or the total of consumption goods waiting the time of maximum service in consumption?

The truth seems to be that the "technological" concept of capital takes account of only one aspect of capital productivity.

[1] Etymologically speaking, there are manifest objections to this use of the term "technological" as referring especially to capital regarded in the mechanical and industrial sense; but no better term seems to be at hand.

That the ice is melting away or the wine falling off in point of gallon measures is not conclusive of the productivity problem. If the utility grows, whether by one sheep growing into two, or one small sheep to one large one, or one poor-mutton sheep to one of good quality, or one superfluous sheep to a famine-time sheep, there is, at least under a collectivist reckoning, economic productivity. So long as either the objective good changes its character so as to change its utility-relation to man, or so long as man so changes in needs and desires, or in provisionment, as to modify the utility-relation between goods and men, there is room for value productivity. The collectivist definition of capital would then run somewhat as follows: *wealth held for increment—wealth in time.*[2]

However clear, then, for technological purposes, may be the distinction between land wealth and other wealth, the distinction remains mostly valueless for the theoretical economics of a collectivist society. But in point of fact, even from the technological point of view, the distinction is valid only in a most broad, general, and inaccurate fashion, applying, no doubt, well at the extremes, but only tolerably or worse for the main body of cases. It is unquestionably true that capital achieves some things attainable through no possible substitute, precisely as some other products are in a peculiar degree dependent on land, others on labor: you cannot have timber from labor or capital; neither land nor labor will dance you a skirt dance; and if you desire a certain peculiar quality of screeching, you must resort to a phonograph as against any form of land or labor. In this technological aspect, then, not merely food and raw materials, but building sites, standing room, air, climate, scenery, neighborhood, etc., are utilities specifically and markedly of land character or origin.

But it is all the while to be remembered that these technological differences and specializations are as marked between one item of land and another, or between one item of capital goods and another, or between one laborer and another, as between capital

[2] It will be noted that this formulation, for collectivist capital, coincides substantially with that of Professors Fetter and Fisher for the concept of capital in general as presented in modern competitive society.

goods and labor, labor and land, or land and capital. Agricultural machinery is technologically closer to wheat land than to machinery for watch or chronometer production; cotton lands are closer akin to sheep than to timber or iron or wheat lands; violin and sea are as much alike as virtuoso and sailor, or as prima donna and fireman.

Nor are lands and capital better distinguished by the test of limitation of supply. There is today in civilized societies little or no poor land that capital might not make into good land. As for the space limitation upon land, it is to be said that, if to raze hills, or to fill or drain swamps, or to make dry land out of lake or river or ocean bed, or to push back the sea by Holland dikes, is to be counted a mere change from one species of economic land to another, there yet remain the effects of improved and extended transportation in bringing useless and valueless land into economic existence; and if it is still urged that, after all, this is no change in mere extent and superficies, it is fair to reply that superficies and geometrical relations are not the point.[3]

But it must still stand as true that, in the long run, land appears to manifest a peculiar degree of inelasticity of supply, of which fact the law of diminishing returns is the economic expression, and the menace of overpopulation a sociological inference. And thereby, over long intervals of time — in the dynamics of technology, and so of value and of distribution — some important tendencies are to be recognized as associated with the land category, and as establishing, for this purpose and from this point of view, the necessity for the recognition of such a category. But so far as discussion confines itself to the exchange relations existing at any one time between goods — to the process of value fixation, the basis of the remunerations received by the various productive agents — that is, so far as the problem in hand is a value problem in a social cross-section, it is not too much to say that these possible or probable outlooks, these long-time prophecies, give no occasion, in a collectivist society, for one sort of productive wealth to be distinguished from another; and in a competitive society they do not justify the conclusion that the pro-

[3] Cf. Fetter, *Quarterly Journal of Economics*, November, 1902.

ductive powers of land are differently remunerated, or have a relation to costs and to value different from other productive powers and agents.

Some difficult problems may be avoided, if only it be held in mind that the pressing problem is the value problem. Laborers may one day become more numerous and more skilful — or less skilful; capital goods may increase relatively to other productive agents — or possibly decrease; land get better or worse with progressive climatic or other changes, and may, relatively to the general situation, become less or more abundant, or less or more adequate; but in each new situation there will be nothing new but the situation and the distributive outcome: the value problem, despite its setting of new terms, will remain in principle and in methods of analysis the same problem.

Nor are distinctions referring to questions of origin — capital being conceived as a human creation, land as an original environmental fact — of greater validity. It is argued that man, in his reactions upon his environment, has imposed some modifications upon the original situation; and it is urged that such changes in the environment as have not been due to the environment itself are properly to be attributed to man; capital is thus conceived as this intermediate term — this aggregate of modifications, so far at least as these modifications have been advantageous. There is no denying the logical adequacy of this point of view; but from any other point of view than this of logical and schematic accuracy, the distinction will not serve; it leads nowhere when an attempt is made to apply it. From among all the changes of all the ages, who can assume to tell what environmental changes have been due to environmental processes as against human agencies? What part, for instance, of the fertility or the infertility of the land has been due to its treatment at the hands of man, to his fertilizings, his exhaustings, and his denudings; what part to fostering or wasting winds, to corals, to birds, to bugs, to worms, to microbes? What share of the value of the house traces back to the timber values of the natural forest, and what part to industrial processes? Even with the case of machinery, the typi-

cal form of capital, human wisdom would fall far short of distributing the final value between the original ore value as against the labor value, the coal value, and the timber value; nor, for any one of these various shares, would it be possible to determine how far land rents, as expressed in warehouse and transportation charges, have counted in the case. And finally, if anyone could succeed in this allotment of origin-credits, either for the land or for the warehouse, is it to be supposed that, as shares in the total hire of the machine, these remunerations would forthwith, either in the collective or in the competitive reckoning, take on a new relation to the cost of the product or to its value?[4]

[4] Senior was fully aware of all this — as a difficulty — but did not see precisely what to do with it: "It is difficult to point out an article, however simple, that can be exposed to sale without the concurrence, direct or indirect, of many hundred, or, more frequently, of many thousand, different producers, almost every one of whom will be found to have been aided by some monopolized agent. There are few things of which the price seems to consist more exclusively of wages and profits than a watch [McCulloch's favorite example]; but if we trace it from the mine to the pocket of the purchaser, we shall be struck by the payment of rent . . . . at every stage of its progress. Rent was paid for the privilege of extracting from the mines the metals of which it is composed; for the land which afforded the materials of the ships in which those metals were transported to an English port; for the wharves at which they were landed, and the warehouses where they were exposed for sale; the watchmaker pays a rent for the land covered by his manufactories, and the retailer for that on which his shop is situated. The miner, the shipwright, the housebuilder, and the watchmaker, all use implements formed of materials produced by the same processes as the materials of the watch, and subject also in their different stages to similar payments of rent. . . . . When we speak, therefore, of a class of commodities as produced under circumstances of equal competition, or as the result of labor and abstinence, unassisted by any other appropriated agent, and consider their price as equal to the sum of wages and profits that must be paid for their production, we no not mean to state that any such commodities exist, but that, if they did exist, such would be the laws by which their prices would be regulated. . . . . We may be asked, then, whether the improvements which form the greater part of the value of the soil of every well-cultivated district are all, and forever, to be termed capital; whether the payments received from his tenants by the present owner of a Lincolnshire estate, reclaimed by the Romans from the sea, are to be termed not rent, but profit on the capital which was expended fifteen hundred years ago. The answer is, that for all useful purposes the distinction of profit from rent ceases as soon as the capital, from which a given revenue arises, has become, whether by gift or by inheritance, the property of a person to whose abstinence and exertions it did not owe its creation. The revenue arising from a dock, or a wharf, or a canal, is profit in the hands of the *original constructor*. It is the reward of *his* abstinence in having employed

CAPITAL IN THE COMPETITIVE SENSE

Examining now somewhat more closely the capital concept as adapted to a competitive society, we ask how far and with what modifications the collectivist capital concept of *wealth as fund,* wealth in time, can be made to serve for competitive purposes. There will come, at all events, this change that we shall be talking in terms of exchange-value denominators, exchange-value production, exchange value of agents, exchange-value computations of gain — rather than in terms of average service, or in some sort of group-marginal utility? In a general way doubtless, technological productivity in terms of utility product will be paralleled in competitive society by a technological productivity in value product. But not everywhere; for it sometimes falls out, in competitive society, that the short output commands an aggregate sale value higher than the bountiful output: that the spices have to be sunk — mechanical destruction, but value creation — or that monopolistic combinations are formed, to the result of diminished product and higher prices — a plus in value, but a minus in utility.

But none the less, such and so many productive agents, technologically considered, as there are in competitive society will, under the value denominator, rank as capital, whether these be land agents or other; all consumption goods, also, will in strict logic be so included, since all are held because the advantage, the increment, lies with postponed consumption. Even with goods deteriorating or decaying, as objectively considered, the advantage is on the side of delay; it is not conclusive that half the apples stored in the cellar will rot, or that the ice in the shed will lose half its weight before summer.[5]

capital for the purposes of production instead of those of enjoyment. But in the hands of his heir it has all the attributes of rent. It is to him the gift of fortune, not the result of a sacrifice. It may be said, indeed, that such a revenue is the reward for the owner's abstinence in not selling the dock or the canal and spending its price in enjoyment. But the same remark applies to every species of transferable property. Every estate may be sold, and the purchase money wasted. If the last basis of classification were adopted, the greater part of what every Political Economist has termed rent must be called profit." — Senior, *Political Economy*, 6th ed. (London), pp. 112–29, *passim.*

[5] Up to this point Professor Fetter's views seem to be in the main worthy of

Perhaps this is all that need be said for capital in a competitive society, so far as there is occasion and justification for a distinctly social concept for capital in a competitive society; and doubtless there are for some purposes both occasion and justification. But for most purposes the social concept does not apply, simply because the activities of men in society are competitively and not socially organized.

But evidently as a computation of competitive costs, regarded from the point of view of supply determining influences, and as having thereby bearing upon the value adjustments of the market, the competitive capital concept already proposed presents its special claims to recognition. Actual business computations of the expenses of production include a wide range of expenditures made out of what, in the individual reckoning, stands as the total business investment, and functions in the terminology and reckoning of the business world as the business capital. In the sense of Mill's doctrine, it is this sort of capital that limits labor, this sort of capital out of which wages are paid.[6]

acceptance. However, his formulation of capital as *material goods conceived in one aspect, their market value,* does not quite accurately apply, and, indeed, was not intended to apply, to the collectivist economy; market value is not a collectivist category. As applied to competitive society, the formulation appears to be much too narrow, the criticism centering mostly upon the word "material." — See Fetter, *Quarterly Journal of Economics,* November, 1900; May, 1901; November, 1902.

[6] Capital in the technological sense has evident bearing upon the wages of labor, not indeed by determining whether or not labor shall be employed — for this is in ordinary times certain, whatever may be the volume of capital — but by determining the manner and effectiveness of its employment, the productive equipment at its disposal, its *outillage.* It is in this sense only that capital may rightly be said to limit labor and to stand in causal relation to the wages of labor. But this is not the sense in which the term "capital" is used in the wage-fund doctrine; it is there used in the sense of an employment fund, a subdivision of business capital, rather than as a technological quantity; in this business sense of capital, subsistence goods are properly included only to the extent that they are actually a part of the entrepreneurs' holdings; that the wage payments made, whether finally expended in subsistence or in other goods, are made out of the cash or banking credits in the employer's control, proves merely that from his point of view this cash or these credits must be regarded as capital. There is little connection, if any, and certainly no direct connection, between the volumes of business capital or credit in society and the real wages of labor. True, any one employer can hire more labor if he controls a larger business capital, but only upon

In the computation of competitive entrepreneur costs, interest charges are reckoned upon something quite irrelevant to technological capital. Entrepreneur capital — capital in the guise in which the type-form of modern business, the corporation, presents it — includes not merely consumption goods in stock, but banking balances, counter money, funds tied up in customers' accounts and in bills receivable of many varieties, corporate stocks and securities, whether held for sale or for investment, and generally all that fund of working capital, more or less unspecialized, requisite for the successful functioning of a business. The manufacturing entrepreneur or the corporation manager would find it a novel and perplexing doctrine which should restrict the capital investment to the buildings, machinery, and raw materials of the undertaking; the corporation really possesses nothing which is not capital.

And still these nontechnological forms of capital deserve not so much greater recognition than they have in the past received, as more careful analysis and classification; for, as has already been pointed out, classical discussion, as indeed all economic discussion, early or modern, is full of this entrepreneur-capital concept.

Adam Smith, for example, rarely failing somewhere to formulate or to employ the correct as well as the incorrect doctrine on almost every economic question, is now and then entirely satisfactory in his treatment of the entrepreneur-capital concept. Perceiving clearly that the fundamental and essential characteristic of capital is found in the acquisitive purpose, the increment purpose, of its holding, and observing that individuals often gain by lending to others or by employing their wealth in some socially nonproductive application — on which question of nonproductiveness he was notoriously much confused — it all the while remaining true that communities as isolated aggregates can gain only through productive processes of some sort, he divided

the assumption that competing employers have not a like increase of capital. The old fallacy of reasoning from one to all is well illustrated here. And in any case, it does not follow that, having more business capital, an employer can afford to pay, or will for any reason pay, a higher wage rate.

acquisitive goods into the two categories, social and private. And out of this, as Böhm-Bawerk believes, has grown up the idea that private capital is connected with interest and is especially a category of distribution, while social capital belongs rather within the field of production.

And doubtless such an idea has developed; but, so far as Adam Smith had any choice between his different idea-vistas, such could hardly have been the doctrine of his preference. For the most part he was talking of private capital as a category of private — that is to say, of competitive — business; not of interest-getting, but of profit-acquiring — gain-making through business activities, whether industrial or merchandising or what not.

It is in this sense of entrepreneur capital that in the Introduction he starts off the wage-fund doctrine on its course with the remark that

> the number of useful and productive laborers, it will hereafter appear, is everywhere in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is employed.

So, likewise, in his comparison of corn prices in England, France, and Poland, where he explains that, despite the greater productiveness of agriculture in the more advanced countries, the prices are rarely lower in the more advanced countries, since the superiority of produce commonly not more than balances, and often does not fully balance, the "greater labor and expense bestowed on them," he is employing a competitive, an entrepreneur, concept of cost, in terms of wage payments and of all outlays and disbursements in general. These outlays and disbursements are never made in terms of technological capital, and rarely in terms of laborer's supplies — consumption goods; and for the purposes of Smith's argument, as well as for the entrepreneur's business computation, it does not at all matter in what form or terms the payments are made.

And so again, in chap. 6:

> Over and above what may be sufficient to pay the price of the materials and the wages of the workmen, something must be given for the profits of the undertaker of the work who hazards his stock in the adventure . . . . the profits of the employer upon the whole stock of labor and materials which he advanced.

No employer, however, can be regarded as advancing a stock of labor in any other sense than that of advancing the wages; Adam Smith is plainly within the concepts of entrepreneur cost and of entrepreneur capital. And again in chap. 8, on "Wages," he explains that labor is rightly treated as a commodity like any other; if capital is increasing faster than population, wages get the benefit; employers fall into sharp competition:

The demand of those who live by wages, it is evident, cannot increase, but in proportion to the increase of the funds which are destined for wages.

Ricardo, as we have seen, found his way over from real value to market value through the mechanism of entrepreneur competition, with its leveling and proportioning effects; all of his reasoning on market value goes upon entrepreneur costs, and thereby, tacitly or in terms, assumes the entrepreneur concept of capital:

Whilst every man is free to employ his capital where he pleases, he will naturally seek for it that employment which is most advantageous; he will naturally be dissatisfied with a profit of 10 per cent. if by removing his capital he can obtain a profit of 15 per cent. . . . . It is perhaps very difficult to trace the steps by which the change is effected; it is probably effected by the manufacturer not absolutely changing his employment, but only lessening the amount of capital he has in that employment. . . . . The monied class . . . . are engaged in no trade, but live on the interest of their money, which is employed in discounting bills or in loans to the more industrious part of the community. The banker, too, employs a large capital on the same object. . . . . There is perhaps no manufacturer, however rich, who limits his business to the extent that his own funds will allow; he has always some portion of this floating capital. When the demand for silks increases, and that for cloth diminishes, the clothier does not remove with his capital to the silk trade, but he dismisses some of the workmen, he discontinues his demand for the loans from bankers and monied men.—Ricardo, *Political Economy,* chap. III, sec. 33.[7]

[7] If further evidence is necessary that prevailingly throughout economic discussion the working concept of capital is the entrepreneur concept, the citation of authors to the required degree is evidently impracticable here; it remains true, however, that economic literature is full of this concept, particularly in those directions showing the strong influence of John Stuart Mill, practically all of whose cost analysis is of the entrepreneur type. But perhaps it may be sufficient again to point out that the wage-fund doctrine would be outside the pale of possible discussion on any other basis than this of entrepreneur capital. What force is there, on any classical plane of discussion, in calling subsistence goods capital otherwise than from the employers' point of view? Or what force in the distinction between fixed and circulating capital? Or in the doctrine as expounded that labor is limited

But now note that with the acceptance of this entrepreneur concept of capital — an acceptance not to be avoided so far as the capital category is to retain its significance for cost-of-production purposes — there must go the abandonment of the threefold division of productive factors as essential or important in the value analysis; for while the technological distinctions may and must, to a limited degree and for certain purposes, hold their place, the services of these various factors in value production are, in competitive business, reduced to the common denominator of money value, stand with regard to entrepreneur outlay in an entirely indistinguishable relation, and are paid for as costs out of one common fund of resources, the capital fund of the entrepreneur.

All things, then, that can be traded in, or valued, or rented, or capitalized, may fall within the meaning of the capital concept. In this sense of the term, capital includes, *in the value aspect,* patents, copyrights, trades-marks, business connections, reputation, good-will, privilege, government favor, franchises, royalties, rights of toll and tribute, rents, annuities, mortgage rights, personal claims;[8] and, further, it includes monopolies of no matter how various kinds and degrees, so far as they may become the subject of invested cost in obtaining them, so far as they are bought and sold as steps in competitive-productive investment, or are vendible upon the market as capitalized dividend-paying properties. All of these are capital for our present purposes, the value investigation, since they get into costs in the actual competitive market production of such commodities — hats, wheat, machinery, stocks, etc.— as are actually marketed. All things which from

by capital? At Mill's time it had become no longer possible to be overlooked that society was in a régime of employer production. Mill accepted from the business world the business basis of reckoning — a computation according to competitive entrepreneur costs. Since Mill's time, with the exception of Cairnes's belated and reactionary crusade, there has been practically no systematic cost doctrine that has not sounded in terms of entrepreneur cost, with its implied recognition of the underlying concept of entrepreneur capital.

[8] To deny the term "capital" to these immateral value items, and to call them merely property, as would Fetter, does indeed obviate any necessity for distinguishing between social and private capital, but the necessity still remains for doing something with this property — a serious matter in itself — or of excluding it from economic consideration — a still more serious matter.

the entrepreneur point of view appear to be expedient expenditure for the purposes of creating either a commodity or a situation of market value are outlays of capital taking rank as costs of production. When the purchase of machinery is an advisable move in business policy, capital goes into it as at another time into land or rent or wages; when, in good business policy, a franchise must be had or a patent procured, capital is, in either case, so directed as to accomplish the necessary thing. When, for equally cogent business reasons, legislatures or city councils must be bought, the necessary outlays are, for cost and value purposes, precisely like expenditures for machinery or for the control of patented processes; tramway stocks and sugar-refining stocks are equally capitalized situations, business-wise obtained by the expenditure of capital. So the expenses of stifling competition are capital outlays, invested as the costs of a monopoly to be obtained; so also the tribute paid to escape cut-throat competition is a capital cost of production.[9]

That for purposes of competitive production the only important fact for cost is the outlay, and not at all the direction of it — technological or other — may perhaps be made clearer if we set ourselves to observe the different ways in which different entrepreneurs in the same line of production go about to achieve precisely similar ends. Of six farmers, with substantially similar farms and inheriting or borrowing an equal fund of purchasing power, one will buy more land, another more machinery, a third will hire more labor, a fourth will buy more draft cattle, a fifth will increase his herds, a sixth will enlarge or improve his sheds and barns; but all will, in essential similarity, be devising ways of most gainfully putting product upon the market. True, there would be room enough here, were it to the purpose, for technological distinctions between the various factors of production, but it is clearly not to the purpose; no one of these productive outlays is any more or any less a cost than any other; and no one of them is a cost by virtue of its labor or its pain content, or of its abstinence quality, but only of its capital outlay.

[9] Cf. Veblen, *The Theory of Business Enterprise,* chap. 6, "Modern Business Capital."

Lest the argument seem to imply too much, or its conclusions to extend too far, it may be permissible to repeat that no abandonment of the technological concept of capital is advocated or could be admitted to be desirable, but only that this technological concept be accepted as such, and that its distinctly social bearing and significance be recognized. Nor is any attack intended upon the principle that, from the social as well as from the individual point of view, all wealth postponed in consumption is capital. But it is here insistently urged that the category of private capital must not be abandoned, but enlarged to be as wide as the concept of competitive capital; and that this latter concept needs not only recognition, but a markedly increased emphasis as surpassingly important among capital concepts; and all this to the end that economics may preserve some practical relation to the actual business life of a competitive entrepreneur society.[10]

In a later article something further may be said regarding certain subordinate capital concepts—especially abstract capital as against loan-fund capital—and as regards also the bearing of these subordinate concepts upon certain theoretical and practical problems; more especially the relation between private and social saving, the processes and methods of credit in its relation to the different aspects of capital, and the relations between savings, private capital, and commercial crises.[11]

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[10] This concept of capital is substantially the same as that which, from another point of view and for entirely different purposes, is set forth by Professor Veblen in his *Theory of Business Enterprise.*

[11] In certain important particulars the foregoing argument and its conclusions are obviously at one with the views of Professors Fetter and Fisher. Social capital one may be content to define in harmony with Professor Fetter's formulation; but there must be sharp dissent from the abandonment of the private-capital concept. Professor Fetter's formulation, while entirely adequate from the social point of view, and important for theoretical doctrines as viewed therefrom, can scarcely be regarded as of theoretical adequacy or of practical service when carried over into the field of existing facts.

Nor does it appear possible to work out anything like approximate coincidence, as does Böhm-Bawerk, between social and private capital, private capital being held as somewhat the more inclusive concept. Fetter and Fisher have sufficiently shown the arbitrary and illogical character of this procedure. Private capital, if

there is any such thing, is widely different from a category collateral to and supplementary to the social capital concept.

But it is not so clear whether, under Professor Fisher's reasonings, there may not be room for the entrepreneur-capital concept above set forth. Certainly the citations from ante-Smith usage, as well as from later usage, admit, if indeed they do not impose, the private business concept; e. g.:

1612: "La sorte principale que è quella quantità di danari, che pongono i mercatanti in sui traffiche."

1694: "Le sorte principal d'une dette."

1611: "Wealth, worth: a stocke, a man's principal or chiefe substance."

1730: "Capital stock [in trade, etc.] is the stock or fund of a trading company, or the sum of money they jointly contribute to be employed in trade." And so, substantially, Rider, 1759; Dyche, 1750; Nicholson, 1818.

1859: "On donne vulgairement ce nom à toute somme amassé, et plus particulièrement à celles qui, placées ou prêtées, peuvent produire intérêt."

1883: "The amount of money or property subscribed or employed in a joint-stock association; the money assets invested in business by a trading firm or individual; the net worth of a party."

The foregoing citations are all from among those collected by Professor Fisher and quoted by him in the *Quarterly Journal of Economics,* May, 1904; which see.

Read with the necessary bias, also, Professor Fisher's formulation is wide enough to admit of the entrepreneur concept: *a stock (of wealth or property, or the value of either) existing at an instant of time, as distinguished from income, which is a flow through a period of time.* But inasmuch as this interpretation would make the formulation do duty for two entirely distinct and inconsistent concepts, it is perhaps not fairly to be claimed or imputed; Professor Fisher's point of view and reasonings are prevailingly social in character. So Professor Tuttle's notion, "surplus wealth as a possession" (*Quarterly Journal of Economics,* November, 1903), appears to be an unwarrantable joinder of social and competitive considerations, or, perhaps better, an impossible compromise between them.

In last analysis, however, the objections to Professor Fisher's view are best appreciated by following out rigorously his distinction between fund and flow, a distinction of unquestionably great value, but made overdecisive for the purposes in hand:

Capital and income being made correlative terms, all flow being income, and the fund giving origin to the flow being capital, wages thereby become a subhead of interest, and men, or their productive power, become capital. Fisher himself accepts this conclusion, but recognizes the awkwardness of it, and declines to regard it as essential to his main position. But it is none the less true that giving up this point necessitates the abandonment of the fund-*vs.*-flow distinction, at all events for the main purpose to which it is applied.

Resting upon this view of man as capital, debts and franchises are by Fisher included within the capital concept, as parts of the fund, since they are liens against men — mortgage claims, so to speak, upon the human-capital items. But if it is permissible to refuse to regard men as capital, there is logically no place for *choses in action,* unless upon the acceptance of the private-capital concept — an outcome which both Fetter's and Fisher's views are especially recommended as avoiding.